Consequences of Multilevel Governance

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Chapter 5

Regional Shared Rule as Institutional Veto Point for Welfare State Change[1]

[1]An earlier version of this chapter was presented at the Vrije Universiteit Amsterdam. I am grateful to Liesbet Hooghe and Gary Marks for advice and comments.

5.1 Introduction

Some twenty years ago, Ellen M. Immergut (1992) started a research program by suggesting that the structure of government affects the welfare state. She argued that decentralization depresses the welfare state because decentralized systems have more veto players, and this makes reform more difficult. Subsequent qualitative (e.g. Campbell and Morgan, 2005) and quantitative (e.g. Huber and Stephens, 2001) work has supported, refined, or challenged this hypothesis, and other scholars have turned to alternative factors. But the extent to which regional authority helps or inhibits the welfare state is still a major puzzle, and twenty years hence, there is no scholarly consensus on how the structure of government shapes the welfare state.

Scholars of the welfare state have engaged in a lively debate about ways to operationalize *welfare states* (for an overview, see Clasen and Siegel, 2007) and a substantial number of quantitative measures have been introduced. Similarly, measures of *federalism* have been criticized as being crude and disregarding variation among federal and unitary countries as well as over time (Rodden, 2004). Yet, little has been done so far to improve the quality of its operationalization. Naturally, qualitative studies of single or few cases do not face these problems because they are able to look into the concepts in greater detail.

This article claims that when putting the institutional structure of intergovernmental relations at the center of study (rather than merely controlling for it), a crude measure—such as a federalism dummy or a trichotomous variable—is insufficient because it gives up valuable information on cross-sectional and over-time variation. Scholars studying the consequences of decentralization should strive to combine the broad perspective of quantitative comparative research with detailed information about each case's institutional system and its development over time. Here, a re-conceptualization of federalism can provide more information on intergovernmental relations across countries and time. I draw on an approach that defines regional shared rule as "the capacity of a regional government to shape national decision making." (Hooghe et al., 2010, 8). This conceptualization revises our view on the

invariability of federal institutions: through this approach, more variation in this 'federal system' becomes visible (and measurable) not only across countries but also over time (see the section on research design below for more detailed information about the concept of shared rule).

Figure 5.1 plots average scores of 18 countries for the period from 1971 to 2002 on shared rule and a trichotomous federalism variable. While the figure demonstrates the correlation between the two variables (strongly federalist countries tend to have higher levels of shared rule), it also shows the added value of refining the operationalization of federalism as shared rule: Belgium has the highest average score on the shared rule variable while until 1992 it has been a unitary country (and its shared rule value had been well above 10 from 1971 on). In comparison, the United States—having been a strongly federalist country throughout the whole period—scores only about 6.5 on the shared rule variable. Even the Netherlands, a unitary country, exceeds the United States scoring 7.5 on shared rule. This comparison highlights some of the added information that becomes available when replacing the crude measure of federalism with a refined scale of shared rule. Once federalism is not only a control variable but the variable of main interest, it is worthwhile to draw on a more refined measure.

In this article, I will apply a recent conceptualization and data set on regional authority to the field of welfare state research in order to theorize and test the relationship between shared rule and welfare generosity. In short, I argue that shared rule reduces the size of absolute changes in welfare provision because it offers more access points for interest groups to prevent the status quo. Furthermore, the increased number of actors also allows for blame avoidance (or blame sharing) which furthers incentives to act as veto player.

The most recent and comprehensive approach to disaggregate federalism and to code dimensions of decentralization for a large number of countries (42 democracies) over an extended time period (1950 to 2006) is the Regional Authority Index (RAI)

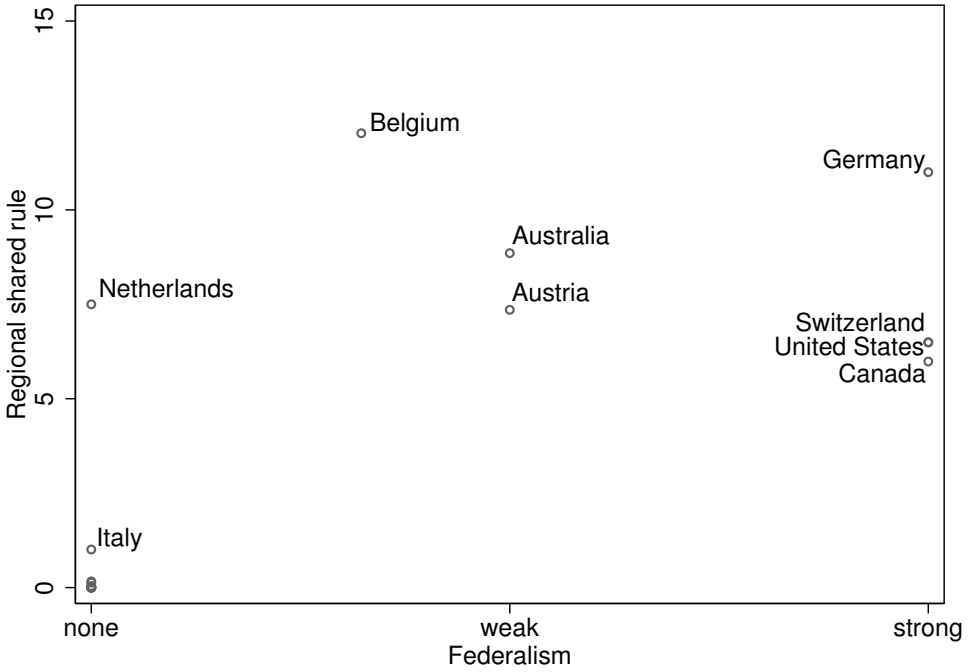

Figure 5.1. Regional Shared Rule and Federalism: Country-Averages (1971-2002). *Note:* Countries in the bottom left corner (classified as unitary countries with no or very little shared rule): Denmark, Finland, France, Ireland, Japan, New Zealand, Norway, Sweden, United Kingdom.

(Hooghe et al., 2010).[2] I draw on the conceptualization of shared rule from this index to test the effect of decentralization on an index of welfare generosity (Scruggs, 2004a) for 18 western democracies between 1971 and 2002. The empirical results support the hypothesis that shared rule limits changes of the status quo.

In sum, the paper makes the following contributions to the state of the art: it introduces a refined conceptualization of regional authority to the debate and argues that regional shared rule—a detailed measure—is more suitable to test the veto point argument than a crude federalism variable. The paper then relates the veto point argument of constitutional structures to regional shared rule as a distinct concept of the multilevel dispersion of authority within states and its effects on

[2]Regional authority is the subnational aspect of multilevel governance, a concept that was first developed to describe European integration as "a polity-creating process in which authority and policy-making influence are shared across multiple levels of government—subnational, national, and supranational" (Marks et al., 1996, 342) but is conceptually not limited to the case of the European Union. This paper focuses on the dispersion of authority *below* the national level.

cross-country and temporal variation in welfare generosity. In the empirical section, I apply a detailed measure based on this refined conceptualization of shared rule to the analysis of change in welfare generosity. Hence, I attempt to overcome the divide between comparative statistical analyses relying on only crude measures of federalism on the one hand and, on the other hand, qualitative studies analyzing federalism more in-depth but looking at only one or few cases. Robust empirical evidence supports the hypothesis: regional shared rule limits changes in welfare generosity.

5.2 Decentralization and Welfare States

Three major factors have been highlighted in the comparative welfare states literature in support of the thesis that decentralization *depresses* the welfare state: institutional veto points (Immergut, 1992), fragmented social interests (Swank, 2001), and regional inequality (Beramendi, 2007). This section discusses these in turn.

A country's institutional structure in general plays an important role in the study of the welfare state. For example, in her influential comparative historical analysis of health policy-making in France, Switzerland, and Sweden, Ellen M. Immergut (1992) argues that institutional structure determines how much influence groups can exert on policy-making: higher power dispersion provides more access points so that even small groups can mobilize against *changes* in legislation. Instead, centralization of power (supported e.g. by party discipline) makes it easier for the government to pass legislation. She finds that Switzerland, where legislative authority is highly fragmented (including the possibility for popular referenda), experienced strong influence of small interest groups that prevented health care reform. In Sweden, by contrast, where the government can rely on the party discipline of its majority in parliament, the constitutional structure did not provide any veto points for opposing groups to block reform policies. Hence, this seminal study paves the way for an argument relating veto points to slower change in (amongst others) welfare policies:

George Tsebelis (1995, 1999, 2000) draws on Immergut's findings when establishing his veto player concept to explain slower policy change in the presence of more veto players.

This argument finds much support throughout the literature: while veto points make the development of welfare states more difficult, they also impede their retrenchment (Huber and Stephens, 2001, 71; 309) and limit changes in welfare states caused by executive ideology alternation (Kuehner, 2010).[3] Other research extends the discussion towards negative effects on beneficiaries of welfare policies in welfare state reform: according to Duane Swank (2001) the dispersion of policy-making power weakens the advocates and beneficiaries of welfare policies because it leads to the formation of distinct and heterogenous groups, e.g. through accentuating differences between poor and rich regions. Similarly, scholars argue that different income levels across regions (i.e., rich versus poor regions) lead to different demands (or voter preferences) for tax and redistribution policies and thereby affect the redistributive effect of regionalization (see Beramendi, 2007, Bolton and Roland, 1997). Moreover, when it comes to the reform of welfare systems the fragmentation of authority forces the government to negotiate on reform policies rather than to push through radical, unilateral reforms (Bonoli, 2001).

Scholars also provide arguments in favor of a *positive* effect of federal structures on the welfare state: Francis G. Castles, Herbert Obinger, and Stephan Leibfried (2005) claim that federalism has had both positive and negative effects on welfare state development depending on other factors including the division of power among institutions or the party system. Furthermore, there are also advocates for differentiation between types of federal systems: for example, Paul Pierson (1995) concludes that federalism matters for social policy making but that its effect depends on (specific characteristics and) its interaction with other political factors. Similarly, Andrea L. Campbell and Kimberly J. Morgan (2005) show that there are distinct

[3]However, Stefan Kuehner (2010) does not find a significant effect of constitutional veto structure itself, only combined with partisan government.

effects of German and U.S. federalism on the reform of old-age care related to differences in the institutional influence of states on federal policy making. Fiscal decentralization can further be positively associated with decentralized policies like education (Busemeyer, 2008). Finally, there is also the view that decentralization resulting in strong *local* governments should gain more attention: this level carries out the more advanced parts of welfare state programs and it is more strongly connected to the people thus being able to generate significant public support for extensive welfare state policies (Sellers and Lidström, 2007, 610f). Jefferey M. Sellers and Anders Lidström (2007, 623) conclude that "strong local capacities [...] appear to have been a historical prerequisite for the emergence of the Social Democratic welfare state."

In summary, based on a veto point logic, past research largely found evidence for a negative effect of federalism on social policy expansion and retrenchment (see Huber and Stephens, 2001, Immergut, 1992, Swank, 2001). However, argument and finding have been refined and challenged—often by qualitative studies—and no consensus has been reached yet (see Busemeyer, 2008, Campbell and Morgan, 2005, Castles et al., 2005, Kuehner, 2010, Sellers and Lidström, 2007).

One potential reason for the lack of scholarly agreement concerns the varying analytical depth of the studies: while studies with a qualitative design (e.g. Campbell and Morgan, 2005, Castles et al., 2005, Immergut, 1992) are able to trace the effect of federalist state structures in more detail, quantitative studies (like Huber and Stephens, 2001, Swank, 2001) apply rather crude, aggregate measures of a federal state structure as distinction between centralized and decentralized countries but also allow for broader testing and generalization of results.[4] Qualitative research, in contrast, promotes a more specific conceptualization of federalism that distinguishes different types of federal structures. General conclusions from such qualitative case studies are then, however, easily misleading as the results might be due to the

[4]For example, in their additive index of constitutional structure, Evelyne Huber and John D. Stephens (2001, 55) distinguish federalism as not existing, weak, or strong.

specific case selection and the method makes it difficult to control for other factors. Hence, there is need for a study combining the strengths of both styles of research: first, a more sophisticated conceptualization of regional authority; second, a rigorous and generalizable large-N empirical testing of its influence on social policy taking into account possibly interfering related variables.

This paper contributes to the field in the following ways: first, by arguing that the veto point logic should not be restricted to the distinction between federal and unitary states but should encompass more subtle aspects of regional shared rule. Secondly, the article proposes a recent index on regional authority (Hooghe et al., 2010) in order to operationalize decentralization as regional shared rule. This index gives a much more detailed picture of the cross-country and temporal variation in levels of shared rule than previous measures of federalism while still allowing for rigorous large-n statistical analysis. Hence, I attempt to overcome the divide between in-depth qualitative studies and more abstract, generalizable quantitative studies. The quantitative test allows to control for various political and socio-economic factors that are commonly used to explain variation in welfare measures (see for example Huber and Stephens, 2001) such as political partisanship, demographic factors, and unemployment in order to avoid biased results. Thirdly, the empirical results support the (here extended) veto point argument: the evidence shows a significant negative effect of shared rule on the size of changes in welfare generosity.

5.3 Shared Rule, Veto Points, and Changes of the Status Quo in Social Policies

Veto points in political decision-making can be either institutional or partisan (Tsebelis, 1995). Usually, a country's constitution specifies institutional veto players whereas parties in a coalition government are partisan veto players (Tsebelis, 1995, 302). The level of regional shared rule is an institutional feature and, hence, part of the family of institutional veto points. Yet, it is not only institutional by nature

(such as, for example, a constitutional court) but also territorial in that it allows subnational units to interfere with national decisions. In that sense, regional shared rule can be compared to a federal system (not surprisingly, both are highly correlated at about 0.7).

According to Jonathan Rodden (2004, 496), the (often binary) measures of federalism are poor proxies for the theoretical concepts that are used to explain the relationship between federalism and the welfare state. This article picks up the criticism that testing the effect of (federal) state structures as veto points against social security requires a refined measure. It makes the case that refining not only the measure but also the conceptualization of regional authority (with a focus on regional shared rule) can improve the understanding of the relationship between decentralization and welfare provision.

The central argument is that one dimension of regional authority—*shared rule*—captures various ways in which regional governments can influence national policy-making beyond a rudimentary distinction between federal and unitary states. Shared rule introduces regional governments as co-decision-makers on the national level (Hooghe et al., 2010, 6). It captures regional influence in law making, executive control, fiscal control, and constitutional reform. This conceptualization is more refined than the one of federal versus unitary systems and represents aspects of decentralization that affect national policy-making but are not part of traditional measures of federalism and veto points used in the literature.

As indicated above, many studies suggest a negative effect of federalism on the welfare state and there has been considerable support for a veto point argument (see e.g. Huber and Stephens, 2001, Immergut, 1992). Shared rule is a domain of regional authority that fits the veto logic well in that it refers to a region's authority to co-decide national-level decisions but also to control the national government and its decisions. In other words, shared rule limits national decision-making power by introducing a form of veto power exercised by regional actors. In summary, the argument claims that regions codetermining policy-making on the national level are

an access point for interest groups to prevent changes of the status quo in social policies.

Another feature of shared rule is that the decision-making procedure involves more actors (each regional government is one actor) and it is then often easier to blame the other party to be responsible for the outcome. Hence, a regional government need not be afraid of punishment by its constituents for blocking welfare reform (either extending or cutting back social security) because it can blame the national or other regional governments (or at least share the blame) for not reaching a consensus over welfare reform. This lowers the barriers for any regional government to open up for the influence of interest groups searching to veto policy change (see Giger and Nelson 2011 for an overview and empirical evaluation of blame avoidance strategies in welfare reform).

Hence, in shared rule systems, interest groups can mobilize and try to stop the development but also the reform and retrenchment of social policies via regional governments. That means that shared rule is not expected to prevent policy change in a certain *direction* (extension or retrenchment) but rather that shared rule limits the *size of absolute changes* (either positive or negative) in public welfare provision. The paper tests the following hypothesis:

Regional shared rule reduces (absolute) changes in a country's level of public welfare generosity.

5.4 Research Design

This section describes the variables, sample, and method for the test of the hypothesis on the relationship between regional shared rule and change in welfare generosity.

5.4.1 Operationalization of the Dependent Variable: Welfare State

'Welfare state' is a multifaceted, aggregate concept and, thus, difficult to capture by one figure.[5] Despite the criticism that public spending does not directly measure social rights, expenditures have long been the dominant operationalization of social security (Huber and Stephens, 2001, 40). This is even more true for the analysis of time-series cross-section data because other data often were not available across time. Moreover, aggregate social spending data are "highly correlated with more theoretically and substantively important outcomes such as income redistribution" (Swank, 2001, 215).

Yet, availability of alternative time-series cross-sectional measures has improved. One of these measures is the welfare generosity index from the Welfare State Entitlements Data Set provided by Lyle Scruggs (2004a) and used in several previous studies (such as Kuehner, 2010, Schumacher, 2011, Schumacher et al., 2013, Vis et al., 2008). It combines scores on unemployment, sickness, and pension generosity based on replacement rates, eligibility criteria, coverage, and take-up ratios (see Scruggs, 2004b). To test the hypothesis appropriately, I use absolute first (year-to-year) differences of welfare generosity as dependent variable. Bivariate correlations support this approach: regional shared rule is not significantly correlated with welfare generosity but significantly ($p < 0.01$) with the absolute first difference (the correlation is rather weak but shows the expected sign: $r = -0.13$). The statistical analysis relies on this variable as main operationalization of the dependent variable but uses other measures to assess the robustness of the empirical findings.[6]

[5] Jochen Clasen and Nico A. Siegel (2007) provide a detailed overview over the problem of operationalizing the welfare state.

[6] For an overview of variables, operationalizations, and data sources see Table 5.A.1 in the appendix. Table 5.A.2 provides descriptive statistics.

5.4.2 Operationalization of the Main Explanatory Variable: Shared Rule

In their Regional Authority Index, Liesbet Hooghe, Gary Marks, and Arjan H. Schakel (2010) develop a measure that distinguishes the institutional power of regions on two domains, namely self-rule and shared rule: "Regional self-rule is the capacity of a regional government to exercise authority autonomously over those who live in its territory. Shared rule is the capacity to codetermine the exercise of authority for the country as a whole." (Hooghe et al., 2010, 6). These two domains each contain four dimensions: *self-rule* combines institutional depth, policy scope, fiscal autonomy, and representation; *shared rule* covers law making, executive control, fiscal control, and constitutional reform. Thus, this measure of regional authority is much more specific and relies on a refined conceptualization of the dispersion of authority compared to conventional measures of federalism like dichotomies or trichotomies (or indices of constitutional constraints—including but not limited to federalism—more in general).

Compared to a federalism measure with only few categories (as used, e.g., by Huber and Stephens 2001), the RAI ranges from zero to 32.1 with a standard deviation of about nine across countries and about 2.4 within countries. This can have considerable impact: for example, Italy is coded 'unitary' on the federalism variable for the whole time period whereas its RAI score varies between 8.5 and 19.5. Moreover, comparing two federations (e.g. Switzerland and Germany) reveals considerable differences between those countries (Switzerland scores 19.5 on the RAI, Germany scores between 28.4 and 29.4).

Regional self-rule taps into aspects of decentralization not fitting the logic of the veto point argument outlined above and might affect welfare generosity in other ways than shared rule. Therefore, for the purpose of this paper, I rely on the shared rule component of the RAI in order to operationalize regional shared rule on the national level and to test the veto point hypothesis. To the extent that traditional measures of federal veto structures capture aspects of shared rule (such as constitutional reform

requiring the consent of the upper parliamentary chamber in countries with strong federalism), it is still desirable to refine measures in a way that makes variation among federal states visible. This is exactly what the shared rule measure of the RAI does and what makes it an interesting measure to be applied to the study of federalism and the welfare state. If this refined and, arguably, more valid measure of regional authority in national decision-making supports existing evidence for a veto point logic this test adds to the credibility of the argument.

5.4.3 Control Variables

The analysis controls for effects of various other factors that previous research found to be relevant: Left cabinet participation and union density (as suggested by the 'power resources' approach, see e.g. Esping-Andersen, 1990, Huber and Stephens, 2001, Iversen and Stephens, 2008, Korpi, 2006), women's representation (Bolzendahl, 2009, Bonoli and Reber, 2010, Korpi, 2000), gross domestic product (GDP) per capita (affluence makes social systems affordable, see Brown and Hunter, 1999, Huber and Stephens, 2001), elderly population and unemployment rate affect the need (or: demand) for a net of social protection (Brown and Hunter, 1999, Huber and Stephens, 2001), military expenditure (guns versus butter trade-off, Huber and Stephens, 2001, 50), inflation (Brown and Hunter, 1999, Huber and Stephens, 2001), economic openness (Korpi and Palme, 2003). For details see Table 5.A.1.

5.4.4 Sample and Method

The pooled time-series cross-section sample comprises 18 Organisation for Economic Co-operation and Development (OECD) countries[7] between 1971 and 2002. This is the overlap of cases between the RAI and the Welfare State Entitlements Data Set (alternative operationalizations in the robustness section are available for different

[7]Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, United States.

periods). Hence, data availability limits the number of countries and the time frame for which the analysis tests the hypothesis.[8]

I test the hypothesis by regressing the absolute first difference in welfare generosity on the level of shared rule and absolute first differences in the control variables. The model includes five-year period dummies to control for external shocks like global economic crises. Estimating the model without period-dummies does not change the main results. Since the differencing of the dependent variable removes problems such as serial correlation of the error term, the model does not include any panel specific econometric modifications. Influential observations are excluded from the analysis (but including them does not change the main results).

5.5 Results

Table 5.1 displays results for the test of the hypothesis that high levels of shared rule limit changes in welfare generosity. Model 1 is the main model and shows the expected significant negative effect of levels of shared rule on the absolute difference in welfare generosity. The subsequent models replace welfare generosity with other operationalizations of the dependent variable (all measured as absolute year-to-year changes) in order to test the sensitivity of the results.

Models 2 to 4 disaggregate welfare generosity into its three components, namely unemployment, sickness, and pension generosity. The analysis also tests the robustness towards measures of welfare state expenditures although these are conceptually substantially different from the generosity index: the commonly used aggregate measures of social security benefit expenditures in Model 5 and social security transfers in Model 6 as well as public health and public education expenditures in Models 7 and 8.

[8] An update of the welfare data until 2011 and an extension to 33 countries has been published recently. However, this does not yet include the aggregate generosity measures used in this analysis. Once these are available, the analysis can be extended to include all available data (according to personal correspondence with the authors of the data set, the generosity measures should be available soon).

Table 5.1. The Effect of Levels of Regional Shared Rule on Absolute First Differences in Welfare Generosity in 18 OECD Countries (1971-2002)

Variable	**Model specifications**							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Shared rule	−0.006[a]	−0.005[b]	−0.001	−0.007[a]	−0.059[b]	−0.015[c]	0.009	0.018
	(0.002)	(0.002)	(0.003)	(0.002)	(0.025)	(0.008)	(0.008)	(0.023)
Left cabinet share (absolute difference)	0.008	0.026	−0.032	0.008	0.116	0.038	0.018	−0.050
	(0.023)	(0.022)	(0.028)	(0.024)	(0.253)	(0.086)	(0.088)	(0.193)
Union density (abs. diff.)	0.060[a]	0.001	0.049[b]	0.014	−0.198	−0.124	0.060	−0.261
	(0.020)	(0.019)	(0.025)	(0.021)	(0.256)	(0.077)	(0.069)	(0.200)
GDP per capita (abs. diff.)	−0.086[b]	0.028	−0.082[c]	−0.050	−0.947[b]	−0.022	−0.134	0.138
	(0.037)	(0.036)	(0.045)	(0.038)	(0.424)	(0.139)	(0.146)	(0.379)
Share of pop. 65+ (abs. diff.)	−0.051	−0.050	−0.032	0.008	−0.448	−0.068	−0.201	−0.379
	(0.068)	(0.066)	(0.084)	(0.071)	(1.013)	(0.257)	(0.229)	(0.491)
Stand. unempl. rate (abs. diff.)	0.010	0.088[a]	0.079[b]	0.039	0.575[b]	0.518[a]	0.025	−0.063
	(0.025)	(0.025)	(0.031)	(0.026)	(0.276)	(0.097)	(0.129)	(0.309)
Military expenditure (abs. diff.)	0.073	0.158[c]	−0.439[a]	0.011	1.084	0.141	−0.030	0.310
	(0.086)	(0.083)	(0.106)	(0.089)	(0.874)	(0.324)	(0.456)	(0.942)
Econ. openness (abs. diff.)	0.025[b]	0.020[c]	0.072[a]	0.016	0.010	0.099[b]	0.073	−0.228[b]
	(0.012)	(0.012)	(0.015)	(0.012)	(0.132)	(0.046)	(0.045)	(0.103)
Share of women in parliament (abs. diff.)	0.015	0.034	0.035	−0.024	−0.140	0.024	−0.073	0.015
	(0.022)	(0.021)	(0.027)	(0.023)	(0.255)	(0.083)	(0.080)	(0.198)
Inflation (abs. diff.)	0.009	0.005	0.002	0.005	−0.205	0.023	0.128	0.258
	(0.018)	(0.017)	(0.022)	(0.018)	(0.173)	(0.068)	(0.101)	(0.241)
Constant	0.874[a]	0.506[a]	0.454[a]	0.793[a]	1.734[b]	0.252	0.310[c]	0.693
	(0.066)	(0.064)	(0.081)	(0.069)	(0.742)	(0.251)	(0.175)	(0.430)
R^2	0.149	0.110	0.137	0.103	0.074	0.112	0.094	0.268
adj. R^2	0.118	0.078	0.106	0.071	0.019	0.080	0.002	−0.030
N	459	459	459	459	235	455	120	39

Notes: Model specifications: (1) base model: pooled OLS regression; dependent variable: absolute first difference in the Welfare Generosity Index (Scruggs, 2004a); main explanatory variable: shared rule (Hooghe et al., 2010). Robustness to alternative operationalizations of the dependent variable: (2) unemployment generosity; (3) sickness generosity; (4) pension generosity; (5) social security benefit expenditures (% of GDP); (6) social security transfers (% of GDP); (7) public health expenditure (% of government expenditure); (8) public education expenditure (% of government expenditure). Five-year period dummies included in the estimations but results not shown (the results are robust to excluding the period dummies).
[a] indicates significance at the 1% level; [b] indicates significance at the 5% level; [c] indicates significance at the 10% level. Standard errors in parentheses.

The results largely support the finding from the first model: the negative effect of shared rule is robust when looking at unemployment (Model 2), sickness (Model 3), and pension (Model 4) generosity as well as social security benefit expenditures (Model 5) and social security transfers (Model 6). Yet, the sign of the coefficient changes when looking at absolute differences in public health and public education expenditures (Models 7 and 8) while the coefficient is not significant. This runs counter to the expected effect. However, the operationalizations of the dependent variable in Models 7 and 8 are substantially different from welfare generosity. Yet, often public education and health spending are also determined on the regional and/or local level and not just on the national level. This might explain the lack of an effect of regional shared rule on these two operationalizations. Additionally, the number of observations is much lower (less than ten percent in Model 8 compared to Model 1), and all five *significant* coefficients of shared rule across these eight models show the expected negative sign. Therefore, the results can still be considered fairly robust and supporting the second hypothesis: regional shared-rule reduces the size of absolute changes in welfare generosity. Figure 5.2 shows graphically that shared rule reduces the size of welfare change across all levels of shared rule.

Further, this finding is robust to the inclusion of outliers as well as to the exclusion of Scandinavian countries (see Models 1 and 2 in Table 5.2), a bootstrap (Table 5.A.3), and a country-wise jackknife (Table 5.A.4). Hence, the sample selection does not drive the results. In addition, I replace the shared rule variable with two other measures: federalism (Model 3 in Table 5.2) shows the same significant negative effect as shared rule and so does an index of the constitutional structure (comprising federalism, parliamentary vs. presidential government, electoral system, bicameralism, referenda) (Model 4). The standardized coefficients show that shared rule (a one standard deviation increase leads to a change in the absolute first difference of welfare generosity of about -0.15 standard deviations) has a slightly stronger effect on absolute change in welfare generosity than federalism and constitutional structure (about -0.12). Models 5 to 8 in Table 5.2 replace shared rule with its components

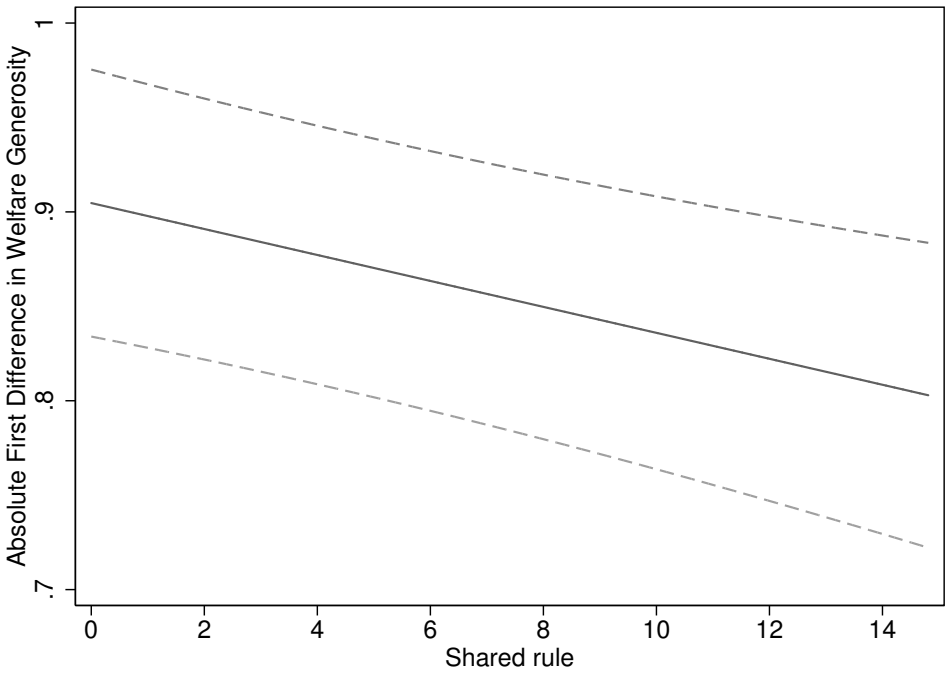

Figure 5.2. Effect of Levels of Shared Rule on Absolute Changes in Welfare Generosity in 18 OECD Countries (1971-2002).
Note: Dashed lines mark 95 percent confidence intervals.

in order to test whether some component in particular drives the result: all four components have a significant negative effect. The standardized coefficients range from -0.10 (executive control) to -0.15 (constitutional reform). In summary, the robustness of the main model is quite substantial showing that regional shared rule significantly reduces the size of absolute changes in public welfare generosity. The only models that show different (but insignificant) signs of the shared rule coefficient are those with quite different operationalizations of the dependent variable (public health and education spending) and a substantially different sample (120 and 39 observations respectively compared to 459 in the main model).

Among the control variables, changes in union density as well as in economic openness significantly increase the size of changes in welfare generosity. Changes in GDP per capita reduce absolute differences in welfare generosity.[9]

[9]The overall model performance is rather low explaining about twelve percent of the variation in the dependent variable in the main model. This rather low explanatory power is due to the fact that first difference models remove the cross-sectional variation in the dependent variable and only

Table 5.2. The Effect of Levels of Regional Shared Rule on Absolute First Differences in Welfare Generosity in 18 OECD Countries (1971-2002)

Variable	**Model specifications**							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Shared rule	−0.007[a]	−0.005[b]						
Federal system			−0.028[b]					
Constitutional structure				−0.012[b]				
Law making					−0.031[b]			
Executive control (collective)						−0.029[b]		
Fiscal control (collective)							−0.027[a]	
Constitutional reform (collective)								−0.014[a]
Left cabinet share (absolute difference)	−0.021	0.025	0.006	0.016	0.014	0.016	0.013	0.003
Union density (abs. diff.)	0.077[a]	0.073[a]	0.069[a]	0.071[a]	0.075[a]	0.073[a]	0.067[a]	0.061[a]
GDP per capita (abs. diff.)	−0.051	−0.066	−0.068[c]	−0.083[b]	−0.081[b]	−0.078[b]	−0.084[b]	−0.077[b]
Share of pop. 65+ (abs. diff.)	−0.045	−0.115	−0.027	−0.039	−0.057	−0.018	−0.060	−0.053
Stand. unempl. rate (abs. diff.)	−0.013	0.012	0.011	0.003	0.005	0.007	0.012	0.018
Military expenditure (abs. diff.)	0.007	0.030	0.084	0.131	0.076	0.052	0.045	0.059
Econ. openness (abs. diff.)	0.021	0.016	0.022[c]	0.009	0.022[c]	0.027[b]	0.029[b]	0.030[b]
Share of women in parliament (abs. diff.)	0.005	0.003	0.001	−0.002	0.005	0.009	0.007	0.011
Inflation (abs. diff.)	−0.005	0.023	0.012	0.013	0.008	0.010	0.001	0.005
Constant	0.896[a]	0.829[a]	0.825[a]	0.845[a]	0.853[a]	0.817[a]	0.860[a]	0.860[a]
R^2	0.100	0.147	0.156	0.154	0.153	0.150	0.145	0.153
adj. R^2	0.070	0.107	0.125	0.123	0.122	0.120	0.114	0.123
N	487	356	460	457	458	457	458	460

Notes: Model specifications: (1) base model including influential observations; (2) base model excluding Nordic countries; replacing shared rule with: (3) federalism (trichotomous); (4) index of constitutional structure; (5) regional shared rule in law-making; (6) collective executive control by regions; (7) collective fiscal control by regions; (8) collective shared rule of regions regarding constitutional reform. Five-year period dummies included in the estimations but results not shown (the results are robust to excluding the period dummies). [a] indicates significance at the 1% level; [b] indicates significance at the 5% level; [c] indicates significance at the 10% level. Standard errors not shown due to lack of space.

5.5.1 Discussion

The empirical results strongly support the hypothesis that shared rule reduces the size of year-to-year changes in welfare generosity as argued above: through regional shared rule, subnational governments receive veto powers and opportunities for blame avoidance. They serve as access points for various interest groups leading to policy inertia that reduces the size of changes to the status quo—here: (absolute) changes in welfare generosity.

This evidence substantiates the considerable body of literature testing the veto point logic (e.g. Huber and Stephens, 2001, Immergut, 1992). Yet, while qualitative studies (such as Immergut, 1992) focus on particular changes in welfare legislation, quantitative studies (such as Huber and Stephens, 2001) mostly analyze changes in social spending. In a more recent contribution, Stefan Kuehner (2010) studies absolute changes in welfare generosity but finds no significant effect of constitutional constraints per se on absolute changes in welfare generosity. In contrast, this paper presents strong support for a negative effect of regional shared rule on absolute first differences in welfare generosity. Hence, while supporting the general consensus of a veto point effect of regional government in national decision-making, this paper puts the relation between federalism and the welfare state into a different perspective and challenges the literature regarding the conceptualization and also the direct effect of shared rule. This supporting evidence is valuable in addition to the results presented in previous studies because it is based on a refined conceptualization and operationalization of regional authority—replacing crude measures of federalism—that has not been used in this research area before. Doubt regarding the results only arises from the fact that the effect of shared rule on absolute changes in public health and education expenditure is positive (yet insignificant and for a much smaller number of observations). However, to a considerable extent health and education

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explain temporal variation. Still, the finding of a negative effect of levels of shared rule on changes in welfare generosity is interesting and future research might want to investigate the explanatory factors of change in welfare generosity more in detail.

spending occur at subnational levels of government. This might explain why the results do not hold when looking at these measures of the size of the welfare state. Both the strong support for the hypothesis as well as these minor doubts can motivate scholars to pick up this approach to re-conceptualize federalism as regional authority (self-rule and shared rule) and to investigate its effects further.

Conclusion

Theoretical arguments and empirical findings on whether the effect of decentralization on public welfare provision is positive or negative are inconclusive. Common criticism points to deficits in the measure of federalism which prevent an adequate testing of the proposed theoretical mechanisms (see Rodden, 2004). These measures, often binary or simple categorical variables, do not have a sufficient degree of specificity regarding aspects of regional authority. Especially qualitative studies, which are not bound to such rudimentary measures, therefore come to different conclusions on the nature of the relationship between federalism and the welfare state than the quantitative literature (see e.g. Campbell and Morgan, 2005).

This article addresses these criticisms and contradictions and contributes to the study of this particular topic in welfare state research: first, I rely on a refined conceptualization of regional authority based on the distinction between self-rule and shared rule. This approach has the advantage that it allows distinguishing between potentially diverse effects of decentralization and, hence, more targeted claims about its effects and also more direct empirical testing. Secondly, the paper draws on the veto point logic established and tested by scholars such as Ellen M. Immergut (1992), Evelyne Huber and John D. Stephens (2001), and Stefan Kuehner (2010) and relates this argument to the conceptualization of federalism as regional shared rule: countries having extensive shared rule of their regions on the national level fail to extensively reform (either extend or retrench) their welfare state: a larger number of actors involved in decision-making offers more access points for

interest groups to mobilize against a change in existing legislation. Further, I argue that a larger number of actors—as in countries governed by shared rule—creates possibilities for blame avoidance. Such possibilities for diffusion of responsibility (or: finding a scapegoat) reduce the risk of electoral punishment which lowers regional government's barriers for opening up to interest group influence and, ultimately, acting as veto player. Thirdly, the article introduces a recent, disaggregate measure of federal state structures (the Regional Authority Index by Hooghe et al. 2010) to this stream of literature in order to test the hypothesis on the negative effect of regional shared rule on the size of absolute change in welfare generosity. The outcome of the empirical analysis of data from 18 countries between 1971 and 2002 supports the hypothesis and proves robust in various sensitivity analyses.

For scholars studying the effect of federal institutions on welfare states this result means additional support for proponents of the veto logic, an argument that has received both support and critique in past research. Yet, the argument and results presented here build on a refined conceptualization and measure. The theoretical argument explicitly puts the multilevel dispersion of authority within the state at the center (compared to broader concepts such as institutional veto points) in order to analyze cross-country and temporal change in welfare generosity. Based on this approach, the empirical results highlight the role of multilevel governance and add to the robustness of existing evidence in favor of the more general veto logic.

Yet, this finding holds for just one domain of regional authority: shared rule. Future research can take this result further and analyze whether another domain of regional authority, self-rule (and its dimensions), has different effects on welfare generosity compared to regional shared rule. If so, this might help clarify why previous research has not yet reached a consensus on the direction of decentralization's effect on welfare states. Further, various scholars (such as, for instance Castles et al., 2005, Kuehner, 2010) have proposed a conditioning effect of federal institutions. Studying such interaction effects goes beyond the scope of this paper but may well turn out fruitful in future research as well. Finally, evidence presented in this article refers to

a very limited set of countries in a limited time period. Whether the results can be generalized beyond this sample requires more data and their analysis in future research. This might prove useful especially for the study of emerging welfare states in Latin America.

5.6 *Appendix*

Table 5.A.1. Operationalizations and data sources

Variable	*Operationalization and Source*
Dependent variable	
Welfare state	Welfare state generosity index. The index combines scores on unemployment, sickness, and pension generosity based on replacement rates, eligibility criteria, coverage, and take-up ratios. Data are available from 1971 to 2002 for 18 countries. For the test of the shared rule hypothesis: absolute first difference (square-root of the square-root transformation to have a normally distributed variable). *Source:* Scruggs (2004a,b).
Explanatory variable	
Regional Authority Index (RAI)	Aggregate country-level data; shared rule combines four dimensions (all quotes below from Hooghe et al. 2010, 8). *Source:* Hooghe et al. (2010).
Shared rule	*Law making*: "The extent to which regional representatives co-determine national legislation" (range: 0-2). *Executive control*: "The extent to which a regional government co-determines national policy in intergovernmental meetings" (range: 0-2). *Fiscal control*: "The extent to which regional representatives co-determine the distribution of national tax revenues" (range: 0-2). *Constitutional reform*: "The extent to which regional representatives co-determine constitutional change" (range: 0-3).
Federalism	"0 = no, 1 = weak, 2 = strong" (Armingeon et al., 2011, 8). *Source:* Armingeon et al. (2011), variable 'fed' (original source: Huber et al. 2004a).
Constitutional structure	"Augmented index of constitutional structures" (Armingeon et al., 2011, 8): refers to federalism, parliamentary vs. presidential government, electoral system, bicameralism, referenda. *Source:* Armingeon et al. (2011), variable 'structur' (original source: Huber et al. 1993, Schmidt 1996).

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Control variables	
Left government	"Left party cabinet portfolios as a percent of all cabinet portfolios" (Swank, n.d.b, 1). *Source:* Swank (n.d.a), variable 'leftc'.
Union density	"Net union membership as a proportion wage and salary earners in employment (union density)" (Armingeon et al., 2011, 15) (square-root). *Source:* Armingeon et al. (2011), variable 'ud' (original source: Visser 2011).
Gross domestic product (GDP)	GDP per head in 1000 US $, constant prices, constant PPPs, OECD base year. *Source:* OECD.
Elderly	Percentage of the population 65 years and older. *Source:* World Bank.
Unemployment	Standardized unemployment rate. *Source:* Armingeon et al. (2011), variable 'st_unemp' (original source: OECD).
Military expenditure	"Military expenditure as a percentage of GDP" (Huber et al., 2004b, 19) (log-transformed). *Sources:* Huber et al. (2004a), variable 'mil' (original source: Stockholm International Peace Research Institute), World Bank (the two sources cover partly different periods but are correlated 0.99—in order to increase the number of observations in the sample the two sources are combined by means of averaging their values where they overlap).
Economic openness	"Openness of the economy in current prices, measured as total trade (sum of import and export) as a percentage of GDP" (Armingeon et al., 2011, 10) (square-root). *Source:* Armingeon et al. (2011), variable 'openc' (original source: Penn World Table 7.0).
Women in parliament	Percentage of women in parliament, cumulative sum since 1960 (square-root of the square-root). *Source:* Armingeon et al. (2011), variable 'womenpar' (original source: Inter-Parliamentary Union)—cumulative average: own calculation.
Inflation	Consumer price index. *Sources:* Huber et al. (2004a), variable 'cpi' (original source: IMF), OECD, World Bank (the three sources cover partly different periods but are correlated 0.99—in order to increase the number of observations in the sample the three sources are combined by means of averaging their values where they overlap).

Table 5.A.2. Summary Statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
Welfare generosity	27.51	7.60	11.04	45.38	505
Welfare generosity, absolute difference	0.84	0.23	0.16	1.85	495
Shared rule	3.74	4.34	0	14.96	505
Soc. sec. benefits (% of GDP)	17.54	6.7	1.98	33.8	271
Social security transfers (% of GDP)	14.1	4.49	3.93	28.91	502
Publ. health exp. (% of gov. exp.)	13.95	2.17	9.23	18.21	144
Publ. education exp. (% of gov. exp.)	12.81	2.09	9.27	17.15	58
Left party cabinet portfolios (%)	0.32	0.37	0	1	505
Union density	6.38	1.54	2.82	9.35	505
GDP per capita (in 1000 U.S.$)	24.56	5.77	13.02	45.04	505
Share of pop. 65+ (%)	13.33	2.47	7.19	18.87	505
Stand. unempl. rate (%)	6.21	3.39	0.08	16.82	505
Military expenditure (% of GDP)	0.77	0.48	−0.42	1.96	505
Econ. openness (% of GDP)	7.71	1.97	3.35	13.58	505
Women in parliament (cum. sum)	3.73	0.95	1.25	5.85	505
Inflation (%)	5.19	4.27	−0.9	24.22	505

Table 5.A.3. Bootstrap

Variable	**Coefficient**	**Std. Err.**
Shared rule	−0.007[a]	0.002
Left cabinet share (absolute difference)	−0.021	0.026
Union density (abs. diff.)	0.077[a]	0.023
GDP per capita (abs. diff.)	−0.051	0.042
Share of pop. 65+ (abs. diff.)	−0.045	0.079
Stand. unempl. rate (abs. diff.)	−0.013	0.029
Military expenditure (abs. diff.)	0.007	0.095
Econ. openness (abs. diff.)	0.021	0.013
Share of women in parliament (abs. diff.)	0.005	0.025
Inflation (abs. diff.)	−0.005	0.020
Constant	0.896[a]	0.076

Notes: bootstrap resampling with 500 replications; [a] indicates significance at the 1% level.

Table 5.A.4. Country-wise Jackknife

Excluded Country	**Shared Rule**	**Std. Err.**	**N**
Australia	−0.007[a]	(0.002)	429
Austria	−0.007[a]	(0.002)	456
Belgium	−0.007[a]	(0.002)	433
Canada	−0.008[a]	(0.002)	436
Denmark	−0.007[a]	(0.002)	445
Finland	−0.006[a]	(0.002)	434
France	−0.009[a]	(0.002)	442
Germany	−0.006[a]	(0.002)	442
Ireland	−0.008[a]	(0.002)	447
Italy	−0.007[a]	(0.002)	440
Japan	−0.009[a]	(0.002)	435
Netherlands	−0.009[a]	(0.002)	435
New Zealand	−0.007[a]	(0.002)	434
Norway	−0.008[a]	(0.002)	438
Sweden	−0.007[a]	(0.002)	436
Switzerland	−0.008[a]	(0.002)	440
United Kingdom	−0.008[a]	(0.002)	435
United States	−0.007[a]	(0.002)	435

Notes: the table displays the results of 18 estimations of Model 1 in Table 5.1 when excluding one country at a time; for reasons of space, the table only presents the coefficients and standard errors of shared rule. [a] indicates significance at the 1% level.